

Executed
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13 APR 1977

THE WHITE HOUSE
WASHINGTON

To : Admiral Turner
Director CIA

Attached is copy of
handout at Cabinet meeting
4-11-77. (copy requested by
Adm. Turner)

David Woodham

13 APR 1977

B-9.5

ZERO BASE BUDGETING
SUMMARY STATEMENT

Zero Base Budgeting is a management technique that permits agency managers to develop a better understanding of their organization and provides them detailed information for making budget decisions. While the technique must be adapted to the unique aspects of each agency, in general the steps outlined below should be followed in its implementation.

1. Analyze existing activities and objectives

The first step is to identify the activities performed by the agency or area of responsibility, the person responsible for performing each activity, and the major objectives of that activity. At this point, consideration might be given to redistributing some of the activities to insure that activity or program managers have a relatively even workload.

2. Development of decision units

The next step is for each higher echelon manager to sit down with each individual activity or program manager reporting to him and define the "decision units" he wishes to utilize and identify the major objectives toward which the activity will be directed for the period under review. A decision unit may be defined as a group of activities that have a common objective. It is suggested that an individual activity or program manager identify no more than 5 - 10 units for purposes of reporting to his supervisor.

3. Compilation of information

The third step is the collection and summarization of the following information about the decision unit:

- a. Activities to be performed
- b. Objectives
- c. Performance measures
- d. Actual and Projected Costs
- e. Actual and Projected Personnel Levels

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4. Analysis of the information

Once the information is compiled, it becomes possible to perform an initial analysis of the unit. The following questions should be asked:

- a. Is it necessary for the government to continue to perform these activities?
- b. Can the private sector do a better job of performing the activities?
- c. Can the activities be performed more efficiently?
- d. What changes would have to be made if funding for the activities were cut or eliminated?
- e. Is a similar activity being performed by another unit? Should these activities be combined?
- f. Would legislation be required to make the changes?

5. Development of decision packages

The next step is to develop a series of decision packages. The process would begin with the development of a package showing a minimum level of funding and performance. Additional packages would then be developed showing the incremental cost and performance for each of the following levels:

- a. Current level
- b. If appropriate, levels between the minimum and current
- c. If appropriate, levels above the current level

6. Ranking of decision packages

Once decision packages are prepared for all the decision units, the next step is for each manager to rank the packages for the unit in order of priority. For example, if a decision unit's budget were cut by 20%, that manager might decide to retain all activities at the minimum level or might decide to eliminate two or three activities and operate the others at the current levels. Needless to say, the process requires making decisions as to what is essential to each unit's operation.

7. Higher level rankings

Once the rankings have been completed, the next step is for them to be reviewed by the next higher echelon of management. This review is basically a three-step process in which the higher echelon of management:

- a. Reviews and analyzes the ranking to determine whether changes should be made.
- b. Develops a single ranking for all of the activities performed in the decision units being reviewed.
- c. Reviews rankings with the next higher level of management.

This process will result in an agency-wide ranking of all decision packages. That is the basic process from a managerial point of view. In deciding on how to use this tool, the following points should be kept in mind:

1. The basic purpose of the process is to help the manager understand the relation between cost and performance and to higher performance per unit of cost. The amount of detail required will depend on the activity or program and on the programmatic and managerial experience of the manager.
2. Begin zero-base budgeting by performing a general analysis of the total organization and its activities and then concentrate on initial detailed analysis on the areas that are most likely to produce the best results.
3. While in some cases immediate results will not be realized, long-range benefits can be achieved by reallocating existing resources to solve new problems instead of requesting additional funds and personnel.

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